

Budget Process



“The City’s services are an unbelievable value! The average household spends more each month for their cable services than for the combined costs of their Police and Fire protection, parks, museums, libraries, roads, bridges, and a host of other municipal services. Working in the Budget Office with so many hard-working and creative people has challenged a lot of my stereotypes about local government.”

**- Rob Raine
Budget and Research Officer**







Nearly all policies and actions of the City of Wichita involve resource allocation. Central to the allocation process is the development of financial trends and the annual operating and capital improvement program budgets.

The Budget Cycle

The City of Wichita utilizes a two-year rolling budget cycle, meaning that revenue and expenditure budgets are prepared annually by fund, and revised for the next two calendar years. The City Manager submits a proposed budget to the City Council for their consideration. The proposed budget revises the current year budget, proposes a budget for the ensuing fiscal year (as required by state law) and projects a budget for the second succeeding year.

In accordance with state law, the City submits the annual budget to the state for certification of each operating fund. If increased expenditure authority is needed for any fund in the revised budget, the City Council must formally approve a revised budget and re-certify that fund to the state, following the re-certification process prescribed in state law.

While the City is developing the annual operating budget, a parallel process is taking place with respect to the Capital Improvement Program (CIP). Shortly after the operating budget is adopted, the CIP is presented, outlining the City's 10-year program for planned capital investments and the means of financing the planned projects.

THE BUDGET CALENDAR FOLLOWS THIS GENERAL SCHEDULE

January – March. Prior year actuals are analyzed (finances *and* performance measures). Revenues are projected and trends are studied. Financial assumptions, budget targets, and projected internal service rates are communicated to Department Directors through the budget instructions. Personal services are projected for the pending budget development process and departments may begin preparing some segments of their budget submittals (i.e., performance measures and program options). Departments make overview presentations to the City Council (March). A financial plan is developed and presented to the City Council. This plan reports the expected long-term financial condition of the City's primary funds based on current trends and assuming status quo policies and directives. The City Council provides direction to the Manager and Finance staff concerning priorities and desired objectives for the budget.

March – April. Base budgets are finalized by Budget staff, in cooperation with and assisted by department staff. Program options and performance measures are developed by department staff. A formal budget request is submitted by the Department Director. The submittal includes an overview, performance measures, program options (including required reduction options), and the Budget Office base budget. There is also an electronic spreadsheet or database of precise, comprehensive line item detail. Finance staff solicit input from citizen groups (District Advisory Boards, Citizen Academy participants and Neighborhood groups).

May – June. Budget requests are reviewed by Finance staff, who will proffer recommendations to the City Manager. Department Directors present their requests *directly* to the City Manager during hearings in late May and early June, and respond to Finance Department recommendations. Final changes are directed by the Manager and a formal budget policy message (transmittal letter) is crafted to accompany the City Manager's proposed budget.

July – August. The City Manager's recommended operating budget is presented to the City Council. The proposed budget is posted on the internet for access by departments and the general public. Analysts contact department staff to report in greater detail what has and has not been included in the Manager's proposed budget. Public hearings are held weekly on the operating budget and at special meetings and workshops. City staff members respond to requests from interested citizens and citizen groups.

Mid August. After publishing of a 10-day advance notice of hearing in the official newspaper (as specified in state law), a final hearing is held and the budget is formally adopted by the governing body. Once the notice of hearing has been published, the budgeted expenditures for each fund may not be increased and the amount identified for taxes to be levied may not be increased, although other changes may be enacted.

August 25. The operating budget is officially certified to the state of Kansas.

August – September. The revised (current year) budget appropriation adjustments are incorporated into the City's finance system. Department staff are notified of amounts and items included in the officially adopted budget, though official copies of the budget are not printed and distributed until October.

Mid or late fall. The Capital Improvement Program is presented to the City Council. (The Capital Improvement Program process is explained in greater detail in this document in the section titled "Debt Service Fund and Capital Projects".)



State Laws and Accounting Practice

Statutes of the State of Kansas govern the operating budget process. Among other provisions, the budget law states that cities must:

- prepare annual, itemized budgets;
- account for the prior, current, and ensuing year in specific ways;
- maintain fund balances within prescribed limits;
- hold a formal hearing, with appropriate publication and notice;
- complete the process and submit the budget by August 25; and
- not exceed adopted expenditure authority without approval through a formal amendment process.

The cash-basis law provides that cities may not pay any obligation in excess of the amount of funds actually on hand in the treasury at the time for the indicated purpose. Under state law, and according to accepted accounting principles, accounts of the City are organized by funds and groups of accounts. This means that:

- each fund is a budget and for accounting purposes has its own set of revenues and expenditures, which must balance;
- expenditures within each fund are limited to the specific purposes of that fund; and,
- resources or revenues in excess of current expenditures are not available for expenditures in other funds.

The State of Kansas statutes, as well as the Summary of Significant Accounting Policies and Description of Funds, are presented in the “Other Information” section following the fund summaries in this document.

Budgets are prepared on an **budgetary basis** different from **generally accepted accounting principles** (GAAP basis). For budgeting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, except for special assessments of the Debt Service Fund that are recognized on the cash basis. The major difference between GAAP and budgetary basis is the reporting of encumbrances (purchase orders, contracts, and other commitments) as a reservation of fund balance (GAAP) as opposed to the equivalent of expenditures (budgetary).

Factors Influencing the Budget Development Process

The amount of available funding determines much of the budget process. Since future revenues cannot be known for certain, the framework for the whole budget development process, in effect, is built upon assumptions about the City’s economic and financial future.

BUDGET REVISIONS, AMENDMENTS AND ADJUSTMENTS

Early in the year and concurrent with the development of financial trends and projections, the process begins to revise the current year budget and develop the next year’s operating budget. Revisions incorporate the latest available information for revenue and expenditure estimates. In addition, the revisions ensure that the planned programs and service levels conform to any new City Council policies.

BUDGET AMENDMENTS. Under Kansas law, the City Council may amend an adopted budget during an operating year, if unforeseen circumstances create a need to increase the expenditure authority of a fund or budget. A ten day official notice is published and a public hearing is held before the City Council.

BUDGET ADJUSTMENTS. During the year, budget adjustments in amounts less than \$25,000 are made within funds administratively, as actual program costs develop. Budget adjustments greater than \$25,000, or adjustments that change the intent of a program expenditure are brought to the City Council for action.

FACTORS IMPACTING THE BUDGET DEVELOPMENT

- Revenue projections, trends and assumptions
- Prior choices, such as policy decisions, programs, and debt obligations
- New needs in the community
- Community preferences
- Limitations imposed by state and federal legislation, the national economy and natural resources

Revenue Projections. The first step in the budget development process is the projection of revenues by City staff. Trends in the performance of each revenue source are studied, and economic conditions and events that could alter the projections are considered.

By March of each year, the best assumptions about many future revenue sources must be “put on the table.” The revenue assumptions become the basis of each fund’s projection in the Financial Plan.



Many factors affect revenues, including weather conditions (especially important for electric, gas and water utility franchise taxes); motor vehicle and gas taxes; and local economic conditions (influencing the sales tax revenue stream as well as other sources). Economic indicators used in preparing the financial projections and budget are included in the “Other Information” section of this document.

Forecasting revenues is one of the most difficult tasks the City has in preparing a budget. If assumptions are too optimistic, policy makers may adopt programs that will not be supported by actual revenues in the coming year. If assumptions are too pessimistic, the budget process becomes constrained by the need to reduce programs and expenditures, or to find new revenue sources, including tax increases.

Assumptions are stated at the beginning of the General Fund presentation because of their importance in the budget process. The assumptions not only provide a benchmark for adjustments in the actual year of operation, but also allow other interested citizens to challenge and improve on the assumptions as the budget is being reviewed.

Prior Choices. The budget process is shaped by many policy decisions and guidelines established by the City Council. For example, the Council monitors the reserve for the General Fund and has determined to maintain levels that do not fall below a minimum of 10 percent of annual revenues. The reserve is thought to be a prudent “savings account” for unforeseen emergencies or shortfalls caused by revenue declines.

Programs supported in the current operating budget represent prior Council commitments that must be continually evaluated to determine if the programs should be sustained, altered, reduced, or eliminated altogether. Reallocations of personnel or equipment, and other modifications involving levels and methods of service delivery in ongoing programs must be undertaken with sensitivity to community preferences, in addition to minimizing disruption to all individuals involved in producing or receiving the service.

Debt obligations that have been assumed to pay for the City's streets and bridges, water and sewer systems, park system, and facilities are another prior choice important in the budget development process. Property tax support for debt service, as a matter of City Council policy, amounts to ten mills, or roughly one-third of all property taxes paid by taxpaying residents in the City.

Closely related to decisions on new debt obligations are the ongoing costs assumed with new capital projects. Future costs of heating and maintaining new buildings, and keeping roads and streets in good condition will add to the annual operating costs.

New Needs, Preferences and Limitations. Finally, new needs and policy directions, as well as unexpected constraints, shape the over-all budget process. Among the most important on the agenda for the City have been public safety, support for community policing, and maintenance of the City and infrastructure.

Meeting unexpected costs of programs mandated by the federal and state governments, as well as providing for future employee compensation, continue to be critical issues. These and other policy matters are addressed in the City Manager's letter, or policy message, which focuses the City Council and citizens on the important decisions encompassed in the operating budget.



2005/2006 ANNUAL OPERATING BUDGET CALENDAR

Fiscal 2005	Action
January 26 – April 6	City Council Budget Workshops – Department overview presentations
March 19	Budget instructions for 2005/2006 operating budget sent to departments
April 16	Final budget submittals due from departments
April 27	Financial Plan presented to the City Council
May 26 – June 11	City Manager reviews the 2005/2006 operating budget in City Manager Budget Hearings
July 6	Distribution of City Manager's Proposed 2005/2006 Annual Operating Budget
July 13	Present budget to City Council, Public Hearing on the 2005/2006 operating budget
July 20	City Council authorizes publication notice on the 2005/2006 operating budget, Public Hearing
August 3	Public hearing on the 2005/2006 annual operating budget.
August 10	City Council formal hearing and adoption of the 2005 operating budget. City Council fixes levy and authorizes publication notice on the 2005 annual operating budget.
August 25	Filing of levies and 2005 budget with Sedgwick County Clerk (K.S.A. 79-1801 and 79-2930)